

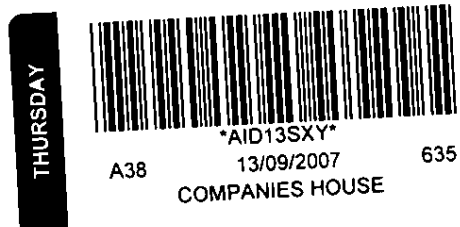
12 SEP 2007

ONSLOW GARDENS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2006



PricewaterhouseCoopers LLP

Chartered Accountants and

Registered Auditors

1 Embankment Place

London

WC2N 6RH

Company No 1627118

ONSLow GARDENS LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2006

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ONSLOW GARDENS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2006

1 PRINCIPAL ACTIVITY

The principal activity of the Company is to invest in commercial property and other forms of investment business and earn income therefrom

2 REVIEW OF THE BUSINESS

The results for the year are shown on page 4 of the annual report. The Directors expect the principal activity of the Company to remain unchanged for the foreseeable future.

During the year the Company purchased two residential apartments at The View, 20 Palace Street, for £1,114,871.

3 FINANCIAL RISK MANAGEMENT

The Company's operations expose it to the risk of interest rate fluctuations. The Company addresses such risks by purchasing interest rate hedging instruments. Such instruments have a year end book value of £nil (2005: £1,174) and a year end market value of £nil (2005: £nil).

4 DIVIDENDS

The Directors do not propose a dividend for the year ended 31 December 2006 (2005: nil).

5 DIRECTORS

The Directors of the Company during the year were as follows:

Mr P Sjöberg (appointed 1 January 2006)
Mr S F Board (appointed 1 January 2006)
Mr D Baverstam
Mr T J Thomson (resigned 1 January 2006)

The Directors had no interests in the shares of the Company at any time during the year. The interests of the Directors, who are also directors of the parent company, in CLS Holdings plc are disclosed in that company's financial statements.

Each Director has confirmed that:

- So far as he is aware, there is no relevant audit information of which the Company's auditors are unaware,
- He has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

ONSLOW GARDENS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

6 STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and of the profit or loss of the Company for the year. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

7 AUDITORS

PricewaterhouseCoopers LLP will not seek reappointment as auditors of the Company and a resolution to appoint Deloitte & Touche LLP as auditors will be proposed at the annual general meeting

BY ORDER OF THE BOARD



Mr S Board
Director

18 May 2007

REGISTERED OFFICE:

26th floor, Portland House
Bressenden Place
London
SW1E 5BG

ONSLOW GARDENS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ONSLOW GARDENS LIMITED

We have audited the financial statements of Onslow Gardens Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

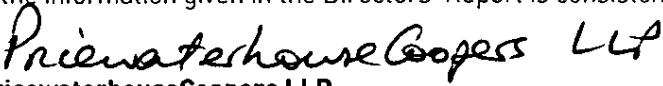
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
18 May 2007

ONSLow GARDENS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 £	2005 £
Rental income		11,531	9,895
Other income		118	-
Service charge expenditure recovered		1,304	3,977
		<hr/>	<hr/>
Turnover	(1)	12,953	13,872
Service charge expenditure		(1,949)	(3,340)
		<hr/>	<hr/>
Net rental income		11,004	10,532
Administrative expenses		(17,354)	(15,629)
		<hr/>	<hr/>
Operating loss		(6,350)	(5,097)
Interest receivable and similar income		23	1,149
Interest payable and similar charges	(2)	(19,734)	(20,409)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	(4)	(26,061)	(24,357)
Tax on loss on ordinary activities	(5)	-	-
		<hr/>	<hr/>
Loss for the financial year	(11)	(26,061)	(24,357)
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		2006 £	2005 £
Loss for the financial year		(26,061)	(24,357)
Unrealised surplus on revaluation of property	(6)	78,142	-
		<hr/>	<hr/>
Total recognised gains/(losses) for the year		52,081	(24,357)
		<hr/> <hr/>	<hr/> <hr/>

There is no material difference between the loss on ordinary activities before taxation and the deficit for the year stated above and their historical cost equivalents

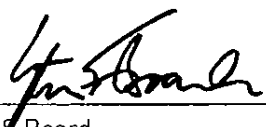
All items included in the above profit and loss account are part of continuing operations

ONSLow GARDENS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

	NOTES	2006 £	2005 £
FIXED ASSETS			
Tangible assets	(6)	1,755,700	555,700
CURRENT ASSETS			
Debtors amounts falling due within one year	(7)	6,553	3,373
Cash at bank and in hand		1,258	1,235
CREDITORS: amounts falling due within one year	(8)	7,811 (1,607,077)	4,608 (455,955)
NET CURRENT LIABILITIES		(1,599,266)	(451,347)
NET ASSETS		156,434	104,353
CAPITAL AND RESERVES			
Called up share capital	(10)	1,000,000	1,000,000
Revaluation reserve	(11)	424,453	346,311
Profit and loss account	(11)	(1,268,019)	(1,241,958)
EQUITY SHAREHOLDERS' FUNDS		156,434	104,353

The financial statements on pages 4 to 9 were approved by the Board of Directors on 18 May 2007 and signed on its behalf by


 _____ DIRECTOR
 Mr S Board

ONSLOW GARDENS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

1.1 *Basis of preparation*

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of land and buildings and in accordance with applicable UK accounting standards. The Company has taken advantage of the exemption in Financial Reporting Standard No. 1 as a cash flow statement has been prepared for the Group. The Company is a wholly owned subsidiary of CLS Holdings plc and has taken advantage of the exemption in Financial Reporting Standard No. 8 not to detail transactions with fellow Group undertakings as the financial statements of CLS Holdings plc are publicly available. The Company has received assurances from fellow group Companies that sufficient funds will be available to meet the company's requirements for at least twelve months from the date of these accounts. Accordingly, these financial statements have been prepared on a going concern basis.

1.2 *Tangible fixed assets*

Investment properties are revalued bi-annually. Completed investment properties are stated at their open market value. Investment properties in the course of development are stated at open market value in their existing state. Surpluses or deficits arising on revaluation are reflected in the revaluation reserve. Revaluation deficits in excess of the amount of prior revaluation surpluses are charged to the profit and loss account.

1.3 *Depreciation*

In accordance with Statement of Standard Accounting Practice 19 no depreciation is provided on completed freehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The Directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. Depreciation or amortisation is one of many factors influencing a property valuation and if depreciation or amortisation might have been charged, it is not possible to identify or quantify this separately.

1.4 *Turnover*

Turnover comprises rents and services charges receivable and other investment income. The prior year also included investment income from long term loans.

1.5 *Deferred taxation*

Deferred taxation is recognised in respect of timing differences arising from differences in the treatment for accounts and tax purposes of transactions or events recognised in the financial statements except that

- Provision is not made in respect of property revaluation gains and losses, and
- Deferred tax assets are recognised only to the extent that suitable taxable profits are considered sufficiently certain to arise which could be set against these assets when they reverse.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse.

ON SLOW GARDENS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

1 6 Interest Rate Caps

The premium paid for interest rate caps used to hedge borrowings is held within debtors on the balance sheet and amortised over the period of the cap

2 INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£	£
Interest rate cap amortisation	1,174	1,395
On loans from group undertaking	18,560	19,014
	<u>19,734</u>	<u>20,409</u>

3 DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION

The emoluments of the Directors of the Company, who are Directors of CLS Holdings plc, are disclosed in that company's financial statements in respect of their services to the group as a whole. The company had no employees during the year (2005: none)

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006	2005
	£	£
This is stated after charging		
Auditors' remuneration	1,175	1,173
	<u>1,175</u>	<u>1,173</u>

5 TAX ON LOSS ON ORDINARY ACTIVITIES

	2006	2005
	£	£
UK corporation tax at 30% (2005: 30%)	-	-
	<u>-</u>	<u>-</u>

No provision for corporation tax has been made for the year due to the availability of losses. Losses are available from one or more of the following sources: losses arising in the year or losses brought forward. Losses arising in the period have been surrendered free of charge.

The current tax charge for the period is lower in 2006 and 2005 than the standard rate of UK corporation tax (30%) as explained below:

	2006	2005
	£	£
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2005: 30%)	(7,818)	(7,307)
<u>Effect of:</u>		
Losses surrendered to group/consortium relief and differences between capital allowances and depreciation	7,818	7,307
	<u>7,818</u>	<u>7,307</u>
Current tax charge in profit and loss account	-	-
	<u>-</u>	<u>-</u>

ON SLOW GARDENS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

6 TANGIBLE ASSETS	2006 £	2005 £
Leasehold investment property		
At 1 January	555,700	555,700
Additions	1,121,858	-
Surplus on revaluation	78,142	-
	<hr/>	<hr/>
Valuation at 31 December	1,755,700	555,700
	<hr/>	<hr/>

At 31 December properties were revalued to an estimate of their open market values taking into account their condition and tenancies existing at that date. Property valuations were carried out by independent valuers, Allsop & Co Chartered Surveyors. The historical cost of investment properties included at valuation was £1,331,247.

7 DEBTORS	2006 £	2005 £
Amounts falling due within one year:		
Trade debtors	5,809	1,758
Other debtors	-	1,174
Prepayments and accrued income	744	441
	<hr/>	<hr/>
	6,553	3,373
	<hr/>	<hr/>

8 CREDITORS: amounts falling due within one year	2006 £	2005 £
Trade creditors	-	70
Amounts due to group undertakings	1,599,512	455,431
Accruals and deferred income	7,565	454
	<hr/>	<hr/>
	1,607,077	455,955
	<hr/>	<hr/>

9 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows

	2006 Provision £	Amount unprovided £	2005 Provision £	Amount unprovided £
Taxation on revaluation surplus	-	103,472	-	94,743
Future benefit of tax losses	-	(31,519)	-	(29,778)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	71,953	-	64,965
	<hr/>	<hr/>	<hr/>	<hr/>

No provision has been included in the financial statements for deferred taxation on revaluation as there are no plans to sell the investment property and therefore no liability is anticipated in the foreseeable future. Such tax would only become payable if the property were sold without it being possible to claim other loss reliefs.

ON SLOW GARDENS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

10 CALLED UP SHARE CAPITAL

	2006	2005
	£	£
Authorised, allotted, called up and fully paid Ordinary shares of £1 each	1,000,000	1,000,000

11 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit & Loss Account £	2006 Total £	2005 Total £
Balance at 1 January	1,000,000	346,311	(1,241,958)	104,353	128,710
Loss for the financial year	-	-	(26,061)	(26,061)	(24,357)
Revaluation surplus	-	78,142	-	78,142	-
Balance at 31 December	1,000,000	424,453	(1,268,019)	156,434	104,353

12 CONTINGENT LIABILITIES

In the Directors' opinion no contingent liabilities exist

13 PARENT UNDERTAKING

The Directors' consider that the immediate, ultimate parent undertaking and controlling party is CLS Holdings plc which is registered in England and Wales. Copies of the parent's consolidated financial statements may be obtained from The Secretary, CLS Holdings plc, 26th floor, Portland House, Bressenden Place, London, SW1E 5BG.

14 POST BALANCE SHEET EVENTS

On 21 March 2007 the Chancellor proposed a reduction in the Corporation tax rate in the UK from 30 per cent effective from 1 April 2008. In accordance with UK GAAP provisions, the existing rate of 30 per cent is still used as a basis for the calculation of the deferred tax stated. An estimate of the financial effect of this change cannot be made due to the uncertain timing of the reversal or crystallisation of the deferred tax provisions.